

Stephen Roberts
Texas Bar No. 17019200
Robert P. Franke
Texas Bar No. 07371200
Duane J. Brescia
Texas Bar No. 240252650
STRASBURGER & PRICE, LLP
600 Congress, Suite 1600
Austin, Texas 78701
(512) 499-3600 / (512) 499-3660 Fax

PROPOSED ATTORNEYS FOR DEBTOR SUPERIOR AIR PARTS, INC.

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

IN RE:

SUPERIOR AIR PARTS, INC.,

Debtor.

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Case No. 08-36705

Chapter 11

**MOTION OF THE DEBTOR FOR AUTHORITY TO IMPLEMENT
RETENTION PROGRAM FOR KEY EMPLOYEES**

AN EXPEDITED HEARING HAS BEEN REQUESTED.

TO: The Honorable Judge of said Court:

Superior Air Parts, Inc., the above-captioned debtor and debtor-in-possession (the "Debtor" or the "Superior"), moves for authority to implement a retention program for key employees and respectfully states as follows:

I. Jurisdiction

1. This Court has jurisdiction to consider this Motion pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b).

2. The relief sought in this Motion is based upon §§ 105, 363(b), and 1107 of Title 11 of the United States Code, (the “Bankruptcy Code”).

II. Background

3. On the date hereof (the “Commencement Date”), the Debtor filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. The Debtor continues to operate its business and manage its properties and assets as a debtor-in-possession pursuant to §§ 1107(a) and 1108 of the Bankruptcy Code. No committee, Chapter 11 trustee or examiner has been appointed in this case.

4. Superior Air Parts, Inc. (“Superior”) is a Texas corporation with its offices and operating facilities located in Coppell, Dallas County, Texas. It was founded in 1967 in order to supply the United States Air Force and commercial customers with replacement parts for piston powered aircraft engines. Superior is one of the largest suppliers of parts under Federal Aviation Administration’s (“FAA”) Parts Manufacturer Approval (“PMA”) regulations for piston engines. It provides Superior-brand parts for engines created by two primary original equipment manufacturers (“OEMs”), the Continental division of Teledyne, Inc. and the Lycoming division of Textron, Inc. Its customers are companies that perform maintenance and overhaul work in the general aviation industry. Superior is also an OEM for the (i) 180-horsepower Vantage Engine and (ii) Superior or owner-built XP-360 Engine for various aircraft companies.

5. In 2006, 100% of the ownership interests of Superior was acquired by Thielert, AG (“Thielert”), a German corporation based out of Hamburg, Germany. Also in 2006, Thielert purchased the debt of Superior’s senior secured lender and subordinated lenders secured by substantially all of the Debtor’s assets. The

outstanding indebtedness to Thielert is approximately \$10 million. However, it does not appear that Thielert has filed a UCC Financing Statement with the Texas Secretary of State, perfecting its security interests in the Debtor's assets. One of Thielert's other subsidiaries, Thielert Aircraft Engines GmbH, has been providing Superior with parts on credit under a supply contract and is owed over \$15 million in unsecured debt. Upon information and belief, the Debtor's trade creditors are owed over \$1.8 million.

6. The Debtor earned \$451,365 from operations in 2006, but lost \$5,635,053 in 2007 and \$4,238,697 through October 2008.

7. On April 30, 2008, Thielert filed an insolvency proceeding in Hamburg, Germany and Dr. Achim Ahrendt was appointed as the preliminary Insolvency Administrator. Thielert Aircraft Engines GmbH, which had been providing engine parts to Superior on credit, also filed an insolvency proceeding in Germany. Dr. Ahrendt determined that it was in the best interest of Thielert and Superior to sell Superior or its assets. In June 2008, Superior hired Corporate Finance Partners Midcap GmbH ("CFP"), a German investment company based in Berlin, Germany to serve as its investment advisor and to seek possible suitors for Superior. CFP canvassed the market, negotiated with numerous potential purchasers, and enabled interested parties to conduct substantial due diligence. As a result of those efforts, Superior entered into an asset purchase agreement ("APA") on December 30, 2008 with Avco Corporation ("Avco"), a wholly-owned subsidiary of Textron, Inc., the highest bidder to date, pursuant to which Avco has agreed to buy substantially all of Superior's assets for \$11.5 million, subject to adjustments for inventory reductions after October 31, 2008.

8. One of the conditions of the purchase agreement was that the purchase be consummated through a Chapter 11 bankruptcy proceeding. This Chapter 11 case was filed to liquidate the assets of Superior and to obtain the highest and best price for creditors, either through the purchase agreement with Avco, or a public auction.

9. Time is of the essence. Due to the nature of the Debtor's business, it is not feasible for the Debtor to continue to assemble and sell small engines or to sell parts when the sale of substantially all of its assets is pending. Accordingly, the Debtor has ceased sales and assembly operations to conserve cash and preserve the assets. The Debtor has retained a group of key employees who are necessary to the consummation of a sale and the Debtor's only post-petition income will come from the collection of accounts receivable. The longer the Debtor must continue to operate in this mode, the fewer funds will be available to pay creditors.

III. Relief Requested

10. The Debtor seeks approval to implement a retention program ("Retention Program") The Retention Program is for the benefit of the fifteen (15) key employees listed below and provides that any of these employees who have not resigned or been terminated for cause prior to the closing of the sale under the APA, or to some other winning bidder under a public auction, if any, will be paid the sums set forth below. The Debtor's business is highly specialized and is critically dependent in a combination of the unique skills and experience of its key employees. Under the Retention Program, these fifteen key employees, who will be the only employees retained by the Debtor, will be promised severance of four week's salary provided that they do not resign and are not terminated for cause before closing of the transaction contemplated by the APA or a

plan of reorganization. During the course of the sale process, as employees are later deemed to be less crucial given the stage of the process, the severance payment will be extended to employees terminated at such time:

NAME	TITLE	AMOUNT
Kent Abercrombie	CEO	\$10,000
Jeff Paust	Dir. of Metallurgy and Quality	\$9,903.86
Jim Whitley	Engineering Document Control	\$4,038.48
Jim Everett	CAD Draftsman	\$5,332.32
Maria Perez	Production Clerk	\$1,800.00
Allen Lasky	Quality Assurance Mgr.	\$3,638.40
Pat Benoit	IT	\$7,781.28
Brent Henman	Sales	\$6,538.48
Bill Blackwood	Warehouse mgr.	\$6,769.24
Juan Ruiz	Warehouse clerk	\$2,348.80
Elvis Lacayo	Warehouse clerk	\$1,830.40
Chenda Reach	Warehouse clerk	\$3,049.60
Jan Clemens	AP and HR	\$5,349.42
Mary Renfro	AR collections	\$3,406.40
Jeff Lochridge	Dir. of Purchasing	\$6,769.24
	TOTAL	\$78,555.92

11. The only insider included in the Retention Program and the foregoing chart reflects that his inclusion is within compliance with 11 U.S.C. §503(c)(2).

12. The Debtor is at a critical juncture in the sale of its assets. If these employees are not retained to maintain the equipment, inventory, critical data management, engineering, collections, and payroll, the value of the assets proposed to be sold will diminish considerably. The potential purchaser under the APA, Avco, has requested in § 5.3 of the APA that these employees stay on to effectuate the sale and transfer of assets because they are essential. Without these employees, there is no guaranty that the sale to Avco, or any other interested purchaser, can be consummated.

13. The Debtor respectfully submits that implementing the Retention Program is in the best interest of the estate. The cost of maintaining the program is substantially less than the cost the Debtor would expect to lose in any sale of its assets by the loss of these key employees. The Retention Program will provide the Debtor's key employees with incentive to continue to work and devote their full energies to the Debtor's Chapter 11 case which will benefit the estate, its creditors and other parties in interest. Each of the key employees has acquired expertise regarding the Debtors business and many of them have years of experience upon which to draw on handling their responsibilities. Their institutional knowledge therefore will be extremely valuable as the Debtors attempt to consummate any sale.

14. Courts have recognized that retention incentive programs, such as the proposed Retention Program, are appropriate in chapter 11 cases and are subject to a deferential business judgment standard of review. See *In re Brooklyn Hospital Ctr.*, 341 B.R. 405 (Bankr. E.D. N.Y. 2006). Courts will not interfere with a board's decision "as long as [the decision is] attributable to any rational business purpose." *Official Comm. of Subordinated Bondholders v. Integrated Res., Inc. (In re Integrated Res., Inc.)*, 147 B.R. 650, 656 (S.D.N.Y.1992); See also *In re Aerovox, Inc.*, 269 B.R. 74, 80 (Bankr.D.Mass.2001)("[A] debtor's business decision should be approved by the court unless it is shown to be so manifestly unreasonable that it could not be based upon sound business judgment, but only on bad faith, whim or caprice."). Most courts considering a request to approve a compensation plan such as the KERP presented here have also examined whether the board's decision is fair and reasonable. See *In re*

U.S. Airways, Inc., 329 B.R. 793, 797 (Bankr.E.D.Va.2005); *In re Allied Holdings, Inc.*, 337 B.R. 716, 721-722 (Bankr.N.D.Ga.2005); *Aerovox*, 269 B.R. at 81.

15. Here, the Retention Program is limited in scope and amount. It only applies to the fifteen remaining employees who have been identified as crucial to the successful sale to Avco. The severance of four week's salary is applicable to all employees, regardless of rank or job classification and is fairly small considering the potential sale to Avco of \$11.5 million. The severance package is tied to the success of closing and/or a plan. However, as employees are later deemed less crucial given stage of the sale process, the severance payment will be extended to employees terminated at such time.

16. As of the filing of this Motion, no trustee, examiner or creditors' committee has been appointed in these Chapter 11 Cases. Because of the exigencies of the circumstances and the irreparable harm to the Debtors, their estates, and all parties-in-interest that will ensue if the relief requested herein is not granted, the Debtors submit that the notice set forth in the Certificate of Service appearing below is sufficient..

WHEREFORE, the Debtors respectfully request this Court enter an order granting the Debtor authority to offer the Retention Program described above to its key employees and for such other and further relief as is just and proper.

Respectfully submitted,

/s/ Duane J. Brescia

Stephen A. Roberts (SBN 17019200)

Robert P. Franke (SBN 07371200)

Duane J. Brescia (SBN 24025265)

STRASBURGER & PRICE, LLP

600 Congress, Suite 1600

Austin, Texas 78701

Tel. (512) 499-3600 / Fax (512) 499-3643

stephen.roberts@strasburger.com

bob.franke@strasburger.com

duane.brescia@strasburger.com

Proposed Bankruptcy Attorneys for the Debtor

CERTIFICATE OF CONFERENCE

The undersigned certifies that this motion is unopposed by the following parties: Thielert AG (the sole shareholder and secured creditor of the debtor). Since this motion is filed within one business day of the petition date, the undersigned will not know whether any parties may object until they are served.

/s/ Duane J. Brescia

Duane J. Brescia

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the above and foregoing document was served upon the parties listed below, if any, and on the attached service list via First Class U.S. Mail, postage prepaid and email on January 2, 2009.

/s/ Duane J. Brescia

Duane J. Brescia

LIMITED SERVICE LIST

Theilert Aircraft Engines
Nieritzstr 14 D-01097
Dresden Germany

Mahle Engine Components
60428 Marine Road
Atlantic IA 50022-8291

KS-Pistoes
Rodovia Arnald, Julio Mauberg
4000 Disrito Industrial No
Nova Odessa SP Brasil CAIZA
Postal 91 CEP 13460-000

Airsure Limited
15301 Spectrum Drive, #500
Addison, TX 75001

ECK Industries, Inc.
1602 North 8th Street
Manitowoc, WI 54221-0967

Mahle Engine Components
14161 Manchester Road
Manchester, MO 63011

Crane Cams
530 Fentress Blvd
Daytona Beach, FL 32114

Corley Gasket Co.
6555 Hunnicut Road
Dallas TX 75227

Saturn Fasteners Inc.
425 S. Varney St.
Burbank, CA 91502

Champion Aerospace, Inc.
1230 Old Norris Road
Liberty, SC 29654-0686

Ohio Gasket & Shim
976 Evans Ave.
Akron, OH 44305

Gerhardt Gear
133 East Santa Anita
Burbank CA 91502-1926

Automatic Screw Machine
709 2nd Avenue SE
Decatur, AL 35601

Helio Precision Products
601 North Skokie Highway
Lake Bluff, IL 60044

Knappe & Koester Inc.
18 Bradco Street
Keen, NH 3431

Garlock-Metallic Gasket Div
250 Portwall St., Ste. 300
Houston, TX 77029

AOPA Pilot
PO Box 973
Frederick, MD 21701

Mahle Engine Components
17226 Industrial HWY
Caldwell, OH 43724-9779

Genesee Stamping & Fabricating
1470 Avenue T
Grand Prairie, TX 75050-1222

Seal Science
17131 Daimler
Irvine, CA 92614-5508

Internal Revenue Service
Special Procedures - Insolvency
P.O. Box 21126
Philadelphia, PA 19114

Mary Frances Durham
Office of the US Trustee
1100 Commerce Street, Rm. 976
Dallas, TX 75242-1496

David Childs, Ph.D.
Dallas County Tax Assessor/Collector
500 Elm Street, Records Building
Dallas, TX 75202

Thielert AG
Albert-Einstein-Ring 11
D-22761, Hamburg Germany

Betsy Price, Tax Assessor Collector
100 E. Weatherford
PO Box 961018
Fort Worth, TX 76196

Hartford Aircraft Products
94 Old Poquonock Road
Bloomfield, CT 06002

Ace Grinding & Machine Company
2020 Winner Street
Walled Lake, MI 48390

Lynden International
1800 International Blvd. #800
Seattle, WA 98188

Combustion Technologies, Inc.
1804 Slatesville Road
Chatham, VA 24531

Ruhrtaler Gesenkschmiede
F.W. Wengler GMBH & Co. KG,
Feld
Witten, Germany 58456

Chester Salomon
Stevens & Lee
485 Madison Ave., 20th Floor
New York, NY 10022

City of Coppell/Coppell ISD
Mary McGuffey, Tax Assessor
Collector
PO Box 9478
Coppell, TX 75019